



POLICY TITLE	Executive and Leader Severance Pay
JCAHO FUNCTIONS	HR
APPLIES TO	Novant Health, Inc.

## I. SCOPE / PURPOSE

This policy applies to executives and leaders ("Employees") of Novant Health (the "Corporation") who are in Tiers I, II, III, IV or V of the Corporation's Executive and Leadership Compensation Program ("Compensation Program"), who have been continuously employed full-time by the Corporation for at least six (6) months, and whose employment is terminated for the reasons described below. Its purpose is to provide transition assistance in the form of post-employment compensation and benefits to Eligible Executives to assist them while they confront the many issues associated with a change in employment.

This Policy shall not apply to Employees who are employed by MedQuest Associates, Inc.

## II. POLICY

### Eligibility Criteria

1. Employees in Tiers I, II, III, IV or V of the Compensation Program who do not have an individual severance agreement with the Corporation, and who have been continuously employed full-time by the Corporation for at least six (6) months, are eligible for the Severance provided by this Policy upon the occurrence of one or more of the following events, unless such occurrence is part of a uniform compensation and/or Tier participation reduction approach under which all similarly situated Employees are treated in a similar manner. In such instances where it is a uniform reduction approach an Employee is not eligible for Severance under this Policy. For purposes of the Policy, a "material" reduction in Base Salary means a 15% or greater reduction.

- a. The Corporation eliminates the position held by the Employee and the Corporation does not offer any other employment to the Employee (i) in a comparable Tier AND (ii) at a Base Salary that is not materially less than the Base Salary being paid to the Employee at the time the position is eliminated;
- b. The Corporation (i) materially reduces the Employee's Base Salary, and/or the Corporation downgrades the Employee's position to a lower Tier in the Compensation Program, and/or the Corporation removes the Employee's position from the Compensation Program; AND (ii) the Employee resigns within thirty (30) Days after the effective date of such reduction or change;
- c. The Corporation sells, merges or otherwise disposes of the Employee's business unit and terminates the Employee's employment as a result thereof;
- d. The Corporation conditions an Employee's continued employment upon (i) a transfer within the Corporation or on accepting a different position, AND (ii) at a Base Salary that is materially less than the Base Salary being paid to the Employee at the time such condition is communicated to the Employee; and/or in a lower Tier (or no Tier), AND (iii) the Employee resigns within 30 Days after the effective date of such condition change; or
- e. The Employee's skills no longer meet the requirements of the Corporation.

2. Additionally, to be eligible for Severance, an Employee must sign a Termination Agreement containing a release, appropriate covenants against competition and disclosure of proprietary / confidential information, appropriate covenants agreeing to post-termination cooperation as needed, appropriate covenants prohibiting the making of disparaging remarks against the

Corporation, and other terms acceptable to the Corporation.

3. Notwithstanding anything in this Policy to the contrary, an Employee is not eligible for Severance if the Employee's employment is being terminated for any of the following reasons:
  - a. Voluntary Resignation, except pursuant to 1(b) or 1(d) above
  - b. Retirement
  - c. Temporary layoff or suspension
  - d. The Executive no longer meets the qualifications for the position
  - e. Discharge for violating a Corporation policy or for unsatisfactory job performance
  - f. Refusal to accept a reasonable request to transfer or accept a different position within the Corporation. Reasonable requests for transfer include lateral transfers and demotions where the Employee's Base Salary is not materially less than the Employee's Base Salary prior to the effective date of transfer and the new position is in a comparable Tier.
  - g. As a result of sale or divestiture of any business unit, division or subsidiary if an arrangement has been made for the Employee's continued employment in a comparable Tier and at a Base Salary not materially less than the Base Salary being paid to the Employee immediately prior to such sale or divestiture.
4. This policy shall not apply to any Employee with respect to which the Corporation has made an agreement in writing concerning the payment of Severance (a "Severance Agreement"). In such a case, an Employee's right to Severance and the amount thereof shall be governed exclusively by the Severance Agreement.

#### **Notice of Termination and Eligibility for Severance**

Under normal circumstances, the Corporation will attempt to provide up to thirty (30) Days advance notice to an Employee who is being terminated and may be eligible for Severance hereunder (the "Notice Period"). However, the failure to provide such notice will not affect any Eligible Employee's rights under this Policy or result in any additional obligation on the part of the Corporation. The last day of the Notice Period shall be the Executive's Last Date of Employment.

Under normal circumstances, the Employee will not continue to work during the Notice Period, but will remain an employee of the Corporation during the Notice Period. In certain circumstances, however, it may be appropriate for the Employee to continue working until the appropriate administrative officer determines that services are no longer required. In this event, the Notice Period shall end on the last day services are provided and the Severance Period will begin the following day.

#### **Severance Pay and Benefits**

1. It is the policy of the Corporation to pay an Eligible Employee the Severance described below, but only if all of the eligibility criteria contained herein are satisfied. Severance will be provided to Eligible Employee based on classification and length of service, as follows:
  - a. *Tier IV and V Executives* – 6 months Base Salary plus one week of Base Salary for each Year of Service, up to a maximum of 9 months of Base Salary, and an amount equal to a proration of the actual incentive award under the Corporation's Annual Incentive Plan paid to the Employee for the fiscal year prior to the year of termination (proration determined based on full months worked in the year), if the Employee has otherwise met the Eligibility Requirements under the terms of the Annual Incentive Plan. If the Employee did not participate in the Annual Incentive Plan under the Compensation Program during the prior fiscal year, then the proration of the incentive award shall equal a proration of the Employee's target annual incentive opportunity under the Corporation's Annual Incentive Plan (proration determined based on full months worked in the year of termination), if the Employee has otherwise met the Eligibility Requirements under the terms of the Annual



Incentive Plan.

b. *Tier II and III Executives --*

- 1) With less than 5 Years of Service - 12 months Base Salary and an amount equal to 1x (which is 100% of) the annual incentive award paid to the Employee for the fiscal year prior to the year of termination. If the Employee did not participate in the Annual Incentive Plan under the Compensation Program during the prior fiscal year, then the amount shall equal 1x (which is 100% of) the Employee's target annual incentive opportunity under the Corporation's Annual Incentive Plan. There is no pro-ratio or rounding up of service.
- 2) With 5 Years or more of Service - 18 months Base Salary and an amount equal to 1.5x (which is 150% of) the annual incentive award paid to the Employee for the fiscal year prior to the year of termination. If the Employee did not participate in the Annual Incentive Plan under the Compensation Program during the prior fiscal year, then the amount shall equal 1.5x (which is 150% of) the Employee's target annual incentive opportunity under the Corporation's Annual Incentive Plan. There is no pro-ratio or rounding up of service.

c. *Tier I Executives --* 24 months Base Salary and an amount equal to 2x (which is 200% of) the annual incentive award paid to the Employee for the fiscal year prior to the year of termination. If the Employee did not participate in the Annual Incentive Plan under the Compensation Program during the prior fiscal year, then the amount shall equal 2x (which is 200% of) the Employee's target annual incentive opportunity under the Corporation's Annual Incentive Plan.

2. All Employees shall receive their vested Unpaid Bonus, paid in a one-time lump sum within a reasonable time after the Last Date of Employment.
3. Severance begins the day following the Last Date of Employment. The Employee normally will be paid in installments on a regular pay period basis until the expiration of the Severance Period. Exceptions must be *approved in writing by the Chief Administrative Officer*.
4. Severance is based on an Employee's Base Salary as of the Last Date of Employment.
5. If an Employee has accrued but unused paid time off ("PTO"), PTO will be paid out as a lump sum. PTO is calculated in accordance with the Paid Time Off Policy and is calculated as of the Last Date of Employment. Sick time is **not** payable upon termination.
6. Group welfare benefits will continue for as long as the Employee receives Severance, subject to plan limitations. (See Attachment-Benefit Coverage During Severance Period) The Employee's benefit coverage will be maintained at the same level that had been previously elected under the benefit plans. The Employee shall continue to share in the cost of coverage using the Corporation's Novant dollar contributions and their own contributions. In the event it becomes necessary to alter the manner in which benefits are provided to an Employee because of the requirements of Novant's welfare plans or because of legal requirements applicable to such plans, Novant will continue to provide the Employee with welfare benefits comparable to those the Employee receives (or is to receive) as of the Last Date of Employment. If Corporation is unable to provide the Employee with comparable welfare benefits, then Corporation may provide Employee with cash to purchase his/her own comparable welfare benefits. If cash is provided, it would include an additional amount equal to the estimated federal and state income tax liability incurred as a result of the benefit payment, including the liability associated with this tax adjustment payment. Upon termination of Severance, coverage will end subject to normal grace periods, COBRA

provisions and/or conversion rights as defined by each plan. It is the Employee's responsibility to contact the Human Resources Department to arrange for benefit continuation. Please refer to the chart following this policy for a summary of benefit continuation provisions.

#### **Outplacement Assistance**

Eligible Employees may be offered the opportunity to participate in professional outplacement services that will encompass career assessment, career counseling, job search, etc. The Corporation, in its discretion, will determine what level assistance will be provided as well as the service provider.

#### **Limitations under Internal Revenue Code Section 4958 and Internal Revenue Code Section 409A**

The Corporation reserves the right to reduce any Severance payable and/or modify the terms of the payments to an Eligible Employee if the Chief Administrative Officer, based on advice from independent legal counsel and compensation advisers, reasonably determines that the Severance to be paid may cause a violation of the Intermediate Sanctions provisions of Section 4958, or the Severance to be paid would not be in compliance with Section 409A. Further, in the event that Code Sections 409A and/or 457(f) require that any amounts payable as Severance to be subject to federal, state or local income taxation prior to the date such amounts are actually paid, the Corporation shall remit all necessary federal, state and local income tax withholding and shall reduce the amounts otherwise payable under this Policy by the amount of such withholding.

#### **Reinstatement**

If a terminated Employee while receiving severance is reinstated, the Employee will not be required to reimburse the Corporation for any such payments received prior to reinstatement. Any remaining unpaid Severance will be forfeited upon an Employee's reinstatement. If the Employee becomes eligible for Severance again, within two (2) years from the last day of the Severance Period, the amount to which the Employee would then be entitled hereunder will be reduced by the amount paid the Employee prior to reinstatement.

#### **Modification**

The Corporation reserves the right to amend, modify, or terminate this Policy at any time for any reason.

### **III. DEFINITIONS**

1. Base Salary: the Employee's actual annual base salary, including amounts deferred, in effect on the Last Date of Employment, exclusive of any other form of compensation.
2. Days: Calendar days.
3. Eligible Employee: An executive or leader in Tier I, II, III, IV or V of the Compensation Program who satisfies the criteria described in the Eligibility Criteria section in this Policy.
4. Full-time: working at least 40 hours per week.
5. Last Date of Employment: the last day of the Notice Period.
6. Notice Period: the period between the date the Executive is notified of termination and the Last Date of Employment, as described in the Notice of Termination/Eligibility of Severance section in this Policy. The Notice Period may be up to thirty (30) Days in length and the

Employee generally will not work during this period.

7. Severance: the gross amount calculated under the Severance Pay and Benefits section in this Policy.
8. Severance Period: the period over which Severance is paid, the length of which is determined by the Employee's position and Years of Service, as explained under the Severance Pay and Benefits section of this Policy. The Severance Period begins the day following the Last Date of Employment.
9. Voluntary Resignation: termination of employment initiated by the Employee.
10. Termination Agreement: the agreement outlining the parties respective obligations regarding the termination of the Employee's employment, including without limitation the payment of Severance.
11. Tier: the level of participation in Novant's Compensation Program.
12. Unpaid Bonus: the amount of bonus earned by the Employee, under Novant's Annual Incentive Plan and/or Long-Term Incentive Plan, but not paid as of the Last Date of Employment. Earned but unpaid means the Executive has met the vesting requirements under the respective Plan but the award has not yet been paid as of the Last Date of Employment.
13. Years of Service: each continuous 12-month period of full-time employment calculated from hire date to anniversary of hire date, beginning with the Employee's most recent hire date. There is no pro-rata or rounding up of service. Severance is based on the number of full years of service an Employee has as of the Last Date of Employment.

#### IV. RELATED DOCUMENTS

Paid Time Off

#### V. REFERENCES

Not applicable

#### VI. SUBMITTED BY

Jacque Daniels, Executive Vice President/Chief Administrative Officer

#### VII. KEY WORDS

Severance, post-employment compensation, job elimination

#### VIII. INITIAL EFFECTIVE DATE

DATE REVISED 01/01/2013

DATE REVIEWED 01/01/2013



# **BENEFIT COVERAGE DURING SEVERANCE PERIOD**

<b>Benefit Plan</b>	<b>Continues During Severance Pay Period</b>
Medical Insurance	Yes
Dental Insurance	Yes
Voluntary Vision Plan	Yes
Employee Supplemental Life	Yes
Spouse Supplemental Life	Yes
Dependent Supplemental Life	Yes
Healthcare Spending Account	Yes
Day Care Spending Account	Yes*
Retirement Plus Contributions	No
Basic Life Insurance	No
Short & Long Term Disability	No
Voluntary AD&D	No
Long Term Care Insurance	Yes
General Deductions (Credit Union, United Way, Real Life Benefits, etc.)	No

*\* Your eligibility to continue contributing to the Day Care Spending Account may have changed as a result of employment termination. The IRS stipulates that both husband and wife be actively employed to be eligible.*

**POLICY SIGNATURE SHEET (one copy only to be maintained by author)**

<b>Company / Facility(s)</b>	Novant Health, Inc.
<b>Department</b>	Human Resources
<b>Policy</b>	Executive and Leader Severance Pay
<b>Action</b>	

**POLICY APPROVED BY:**

<b>Title</b>	<b>Approved By</b>	<b>Signature</b>	<b>Date</b>
Executive Vice President, Chief Administrative Officer	Jacque Daniels		

**COMMITTEES APPROVED BY:**

<b>Committee</b>	<b>Chairperson/Designee</b>	<b>Date</b>
Compensation and Leadership Committee of the Novant Board of Trustees		

**DATES OF APPROVAL:**

<b>Initial Effective Date</b>	
<b>Date Revised</b>	
<b>Date to be Reviewed</b>	01/2014